Aff – Oil Prices Low

Oil Prices Low, Dependence Dropping

CS Monitor 4/11/14 "IMF: North American boom to keep oil prices low," http://www.csmonitor.com/Environment/Energy-Voices/2014/0411/IMF-North-American-boom-to-keep-oil-prices-low

The International Monetary Fund said global crude oil prices have been relatively lower because of the growth in oil supply from North America. With U.S. oil production on pace to eclipse 9 million barrels per day near term, **the trend should continue through next year**.¶Nearly **all of the growth in global oil production is coming from the United States and Canada.** Combined, North American production growth is around 1.2 million barrels per day from U.S. shale oil and Canadian oil sands. IMF said this growth was spilling over to the global marketplace.¶ "**Crude oil prices have edged lower, mainly as a result of the continued supply surge in North America,"** it said. (Related Article: Russian Sanctions and the Negative Effect on Global Energy Security)¶Recommended: US energy in five maps (infographics)¶The U.S. Energy Information Administration said in its market report for April it expected the price for Brent crude, the global benchmark, to average $105 per barrel this year, but fall to $101 in 2014. For West Texas Intermediate, the U.S. benchmark, prices should average $96 per barrel. That's $1 per barrel higher than EIA reported last month, although the administration expects WTI to dip to $90 per barrel next year. ¶US energy in five maps (infographics)¶Play¶PHOTOS OF THE DAY Photos of the day 06/24¶WTI is less than the Brent equivalent because of the increase in production in the United States.¶EIA said in its report that a harsh winter season in the Lower 48 states curbed oil production, though a recovery is on its way. Seasonal issues aside, EIA said it expects strong growth in crude oil production from the Bakken, Eagle Ford and Permian shale basins through 2015.¶In its short-term report, **EIA said U.S. oil production should average 8.4 million bpd in 2014, a 14 percent increase from last year. By next year, U.S. oil production should reach 9.1 million bpd**.¶Recommended: Key world markets to see big changes. Get in-depth reports FREE.¶ WTI was priced at $102.56 per barrel Wednesday, while Brent sold for $107.67. **Oil prices this week declined on word export terminals in eastern Libya were set to reopen, ending a long blockade.** Prices had rebounded by Wednesday, however, following mixed reactions to EIA's assessment of crude oil stockpiles. (Related Article: U.S. Shale Means Cheap Coal for British Economy)¶EIA said **domestic crude oil production should move closer to 13 million bpd as the shale boom continues**. For the IMF, this trend suggests global oil prices should continue their steady decline. While crude oil prices increase 0.1 percent this year, they should drop by 6 percent in 2015.¶The decline means lower energy prices for U.S. consumers, though global economic factors will continue to influence the North American market. Long-term, EIA said U.S. oil imports should continue to decline through 2036 and approach near zero through 2040.

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Prices Dropping and Domestic Production Increasing

Myra P. **Saefong and** Victor **Reklaitis**, MarketWatch, "Record U.S. crude supplies send oil prices lower," **4/23/14** http://www.marketwatch.com/story/oil-flat-as-traders-brace-for-supply-data-2014-04-23

SAN FRANCISCO (MarketWatch) — **A U.S. government report showed that weekly crude inventories climbed to their highest level on record, pulling oil futures down by the close to their lowest settlement in more than two weeks.¶ Tensions between Russia and the West over Ukraine continued to feed worries about oil supplies from Russia**, analysts **said, limiting price losses for oil, however.¶ Crude oil for June delivery fell 31 cents, or 0.3%, to settle at $101.44 a barrel on the New York Mercantile Exchange**. **That was the lowest settlement since April 7,** based on the most-active contracts. Oil futures were trading at $101.90 shortly before the supply report and prices managed to trade briefly above $102 after it.¶ Brent crude , the European benchmark, saw its June contract close at $109.11 a gallon, down 16 cents, or 0.2%, on the ICE Futures exchange.¶ **The U.S. Energy Information Administration said crude stockpiles rose 3.5 million barrels for the week ended April 18. Analysts polled by Platts were looking for a climb of 3.1 million barrels.¶** Supplies for the week totaled 397.7 million barrels, the largest weekly total for commercial crude inventories since at least late August of 1982, based on EIA records going back as far as that date. Some analysts and news reports said **the stockpile level was at an all-time high. The previous high of nearly 397.6 million barrels was reached in late May of last year.**¶ "Although the market may think U.S. commercial crude is bursting at the seams, it is not — and at 397.7 million barrels, we are only 2.3% higher than one year ago," said Richard Hastings, macro strategist at Global Hunter Securities. "The problem is on the demand side, which is quite weak."¶ EIA data show that total petroleum products supplied over the last four-week period averaged over 18.2 million barrels per day. That's down 1.6% from the same time a year ago.¶ Rising refinery capacity utilization also helped ease any concerns over petroleum product supplies as refineries ramp up from the usual Spring maintenance shutdowns. Utilization was at 91% for the latest week, up from, 88.8% a week earlier and up from 83.5% the same time a year ago, EIA data showed.¶ Late Tuesday, the American Petroleum Institute reported a gain of 519,000 barrels for crude supplies, much less than the consensus forecast.¶ "We saw a larger build than expected in the [EIA] numbers reported, as well as a less-than-expected draw in unleaded gasoline," said John Macaluso, research analyst at Tyche Capital Advisors.¶ **Crude supplies at the Cushing, Okla. trading hub "did have a draw that was a little more than expected," he said. The EIA said supplies at Cushing fell 800,000 barrels for the week.¶ 'Well supplied' but Ukraine adds worry¶ But the U.S. is "well supplied in crude oil. We believe the only reason crude oil prices aren't [even] lower is the continued situation in Ukraine," said Macaluso.¶ Hundreds of U.S. troops are headed for maneuvers in Eastern Europe through year's end. These new deployments aim to reassure U.S. allies on Russia's borders — Poland, Lithuania, Latvia and Estonia.**

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Oil Prices Low – Saudi stockpiles and US production

Bloomberg 5/30/14 "Oil Price Becalmed as Supply Growth Means Record Low Volatility," http://www.bloomberg.com/news/2014-05-30/oil-price-becalmed-as-supply-growth-means-record-low-volatility.html

Oil-price volatility fell to a record amid speculation that crude-supply growth in the U.S. and spare Saudi Arabian production capacity will avoid any shortages resulting from strengthening economies.¶ The 20-day historical volatility of Brent crude declined to 8.1 percent at 3 p.m. in London today, set to be the lowest since the contract began trading in 1988, according to data compiled by Bloomberg News. **Spare capacity in Saudi Arabia and booming U.S. output of oil from shale-rock formations are preventing price surges, while stable global economic recovery and steady stimulus measures by the Federal Reserve avert a slump**, BNP Paribas SA said.¶ "It can be taken as a sign that markets are deemed to be in equilibrium, with no clear fundamental imbalances," Olivier Jakob, managing director at consultants Petromatrix GmbH in Zug, Switzerland, said by e-mail today.¶ Brent futures traded as low as $103.95 a barrel and as high as $112.39 this year. In comparison, the 2008 peak was $147.50 and the low that year was $36.20. The International Energy Agency, an adviser to 29 nations, anticipates that growth in supply and demand will be closely matched. **Oil markets are less vulnerable to supply shocks because of the surge in U.S. shale production, which this year will reach the highest since 1986**, Barclays Plc says.¶ Speculators Deterred¶ Expectations that prices will remain little changed are deterring oil consumers and producers from trading in futures to lock in costs, and also limiting speculation by hedge funds and other money managers, Harry Tchilinguirian, head of commodity markets strategy at BNP Paribas in London, said May 20. Volatility will remain muted into 2015, Barclays said in a report on May 27.¶ **While volatility has diminished, there are still strategies to benefit from the reduction in price movements,** according to BNP Paribas. Deutsche Bank AG started an index in March enabling investors to effectively sell Brent's implied volatility.¶ BNP Paribas repeated on May 28 its recommendation, first made in January, to bet that prices will stay between $85 and $115 a barrel using a "strangle" strategy that involves trading put and call options.¶ Volatility may rebound because high levels of bets by speculative traders leave Brent vulnerable to a decline, according to Petromatrix's Jakob. **The premium on immediate deliveries of Brent crude, a condition known as backwardation which often attracts investors,** may be set to narrow, he said. **This would cause traders to cut positions, and triggering a price slump that would bolster volatility**, Jakob said.

Aff – Oil Prices Low – A2: Turmoil

Javier E. **David, 1/15/2014** CNBC Journalist, "Forget Mideast turmoil—oil moving lower: Analysts," http://www.cnbc.com/id/101335686#.

Despite ongoing and unpredictable turmoil in the Middle East, analysts say oil is heading lower in 2014.¶ Over the last several weeks**, crude has been whipsawed by conflicting expectations out of the Middle East: Iran is seen as potentially increasing exports as it reaches a deal that curbs its nuclear ambitions, but at the same time, instability in Iraq and Libya have knocked more than 1 million barrels per day** (bpd) of oil offline. **Regardless of whether violence in the Middle East takes a toll on supply, analysts say structural factors argue against crude moving higher from current levels. With or without the addition of Iranian supply, production elsewhere is expected to remain fairly consistent.** ¶"At the end of the day, **despite all the turmoil in a lot of these markets ... production doesn't necessarily get curtailed,**" said Farid Guindo, the founder of alternative asset manager Drill Capital.¶Guindo, who said he was "very comfortable" with a forecast of West Texas Intermediate near $85 per barrel, and a $90-$100 range for Brent, added that "it all boils down to fundamentals"—which at this point point to lower crude prices. **Despite short-term supply bottlenecks, energy market watchers said the market for crude remains oversupplied as global growth remains sluggish. Goldman** Sachs points out that demand is shifting away from hungry emerging markets and back to developed nations.¶"Being that developed markets are less commodity-intensive, that is a bearish dynamic," said Jeff Currie, Goldman's head of commodities in an interview on CNBC's "Squawk on the Street." Most developed economies are still grappling with uneven growth, making demand questionable.¶"Couple that with normalization and supply ... and it creates a lot of downside risk," Currie added. Playing in the background is the surge in U.S. production, which analysts believe is restraining market dynamics. A domestic shale boom is slaking demand in the United States and keeping markets oversupplied. **The International Energy Agency has forecast that U.S. oil production will soar to more than 11 million barrels a day by 2020.¶ In a recent research note, Bank of America-Merrill Lynch said strong output from both non-OPEC and OPEC producers would cap the market. "We see Brent prices averaging $105 bpd in 2014, dipping to $90 at some point," the note said.¶ In the U.S., "strong shale oil production growth spells regional pipeline, refining and storage bottlenecks,**" the bank said—adding that it even sees an outside risk of WTI sinking as low as $50 sometime over the next two years.¶In the short term, "you get pressure on pricing, but in the long term you go back to fundamentals," said Drill Capital's Guindo. "We think there's more supply than demand going forward."

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Dependence low – we'll be the largest producer soon

NYT, 12 (Elisabeth Rosenthal "U.S. to Be World's Top Oil Producer in 5 Years, Report Says" 11/12 http://www.nytimes.com/2012/11/13/business/energy-environment/report-sees-us-as-top-oil-producer-in-5-years.html)

The United States will overtake Saudi Arabia as the world's leading oil producer by about 2017 and will become a net oil exporter by 2030, **the International Energy Agency said** Monday.¶**That increased oil production**, combined with new American policies to improve energy efficiency, **means** that **the United States will become "all but self-sufficient" in meeting its energy needs** in about two decades — a "dramatic reversal of the trend" in most developed countries, a new report released by the agency says.¶"**The foundations of the global energy systems are shifting**," Fatih Birol, chief economist at the Paris-based organization, which produces the annual World Energy Outlook, said in an interview before the release. The agency, which advises industrialized nations on energy issues, had previously predicted that Saudi Arabia would be the leading producer until 2035.¶ The report also predicted that global energy demand would grow between 35 and 46 percent from 2010 to 2035, depending on whether policies that have been proposed are put in place. Most of that growth will come from China, India and the Middle East, where the consuming class is growing rapidly. The consequences are "potentially far-reaching" for global energy markets and trade, the report said.¶Dr. Birol noted, for example, that Middle Eastern oil once bound for the United States would probably be rerouted to China. American-mined coal, facing declining demand in its home market, is already heading to Europe and China instead.¶There are several components of the sudden shift in the world's energy supply, but **the prime mover is a resurgence of oil** and gas **production in the United States, particularly the unlocking of new reserves of oil** and gas found i**n shale rock. The widespread adoption of techniques** like hydraulic fracturing and horizontal drilling **has made those reserves much more accessible**, and in the case of natural gas, resulted in a vast glut that has sent prices plunging.¶The report predicted that the United States would overtake Russia as the leading producer of natural gas in 2015.¶**The strong statements and specific predictions** by the energy agency **lend new weight to trends that have become increasingly apparent** in the last year.¶"**This striking conclusion confirms a lot of recent projections," said** Michael A. **Levi, senior fellow** for energy and environment **at the Council on Foreign Relations**.

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Exports are increasing

Bloomberg, 13 (Shobhana Chandra "Oil Exports Trim U.S. Deficit as Fuel Gap Shrinks: Economy" February 8th http://www.bloomberg.com/news/2013-02-08/trade-deficit-in-u-s-plunges-on-record-petroleum-exports.html)

<u>Record petroleum exports helped shrink the U.S. trade deficit</u> in December to the smallest in almost three years **<u>as America moved closer to energy self-sufficiency</u>**, a goal the nation has been pursuing since the 1973 Arab oil embargo.¶ The gap narrowed 20.7 percent to $38.5 billion, the smallest since January 2010 and lower than any estimate in a Bloomberg survey of 73 economists, Commerce Department figures showed today in Washington. **<u>Oil exports climbed $11.6 billion.</u>** Another report showed wholesale inventories unexpectedly declined in December.¶ In addition to trimming the trade deficit, greater fuel autonomy helps boost household incomes, jobs and government revenue and makes American companies more competitive. An improving global economy, reflected by record exports to South and Central America, also means manufacturers such as Caterpillar Inc. will benefit.¶ "**<u>The trend toward energy independence is there, and it is picking up,</u>**" **<u>said</u>** Andy **<u>Lipow, president of Lipow Oil</u>** Associates LLC in Houston **<u>with more than 30 years of experience</u>** in refining and trading. "This bodes well for our economy. **<u>As our oil production increases, our reliance on other parts of the world for oil comes down."</u>**

Aff – High Prices Bad – Economy

Oil prices are devastating the global economy—even producers will be hurt by high inflation and a slow down of commerce—only a transition to sustainable sources of energy can reverse this trend.

Shri. P.**Chidambaram**, 6/23/**2008**. Leader of the Indian Delegation to the International Monetary and Financial Committee. "Oil Prices threaten to wipe out the economic gains made by developing countries: Finance Minister," PIB PR, http://pib.nic.in/release/release.asp?relid=39707.

Oil prices threaten to wipe out the economic gains made by developing countries in recent years. The irrational escalation in oil prices is the cause of diversion of scarce resources from education, health and other social sector schemes. Three weeks ago, India passed on barely 9 per cent of the required price increase to consumers: the result is that inflation measured by wholesale prices has crossed 11 per cent. W**e are sorry to note that even oil producing countries such as Indonesia, Russia, Saudi Arabia and Venezuela face double-digit inflation rates ranging from 10.5 per cent to 29.3 per cent**. How did this situation come about? And how may we overcome what appear to be formidable challenges? Let me focus on some key areas and imperatives from the perspective of developing economies like India. a. Questions have been raised about the fundamentals of the oil industry. There is a need for the oil industry to re-assert its leadership in price formation and not remain passive spectator of speculation and paper trading in oil. The global hydrocarbon community must address this situation through appropriate supply-side responses and calm the oil markets. b. Today, the vulnerability of the supply chain to temporary supply disruptions stands exposed. Global oil consumption grew by 1.1% or 1,000,000 barrels per day in 2007 whereas the global oil production fell by 130,000 barrels per day. Spare capacity, across the supply chain, has dwindled considerably. This has added to risks and uncertainty. Hence, the need to fast-track development of oil resources. c. As per the estimates of the International Energy Agency (IEA), our future oil and gas needs call for massive investments of the order of US$ 10 trillion by the year 2030. Such fund mobilization can be achieved. Fresh investments are not materializing perhaps because of anticipated fall in demand. This is plainly wrong. The cyclical behaviour of oil markets is amply established and we know that oil production provides attractive returns in the long run. High oil prices have improved the balance sheets of oil-producing nations and companies. It would be reasonable, therefore, to expect oil producers to fund capacity expansion. d. Respectfully, we reject the suggestion that rising demand is the cause of spiraling oil prices. Surely, demand and supply dynamics can not explain what has happened over the last 12 months. How is it that oil prices were US$70 a barrel in August 2007 and how is it that they have doubled when there has been no dramatic change in demand? The causes for the current pandemonium in oil prices lie elsewhere: in unregulated over-the-counter markets and futures trading in oil. e. There is ample evidence that large financial institutions, pension funds, hedge funds etc. have channelized billions of dollars – nay, trillions of dollars - into commodity investments and commodity derivatives. It is common knowledge that these financial transactions are unregulated and highly opaque. The demand for oil generated by these funds is purely speculative demand. In our view, the time has come for producers - especially OPEC - and consumers to wrest control over oil trading from the hands of the speculators. f. The only way forward is for the both producers and consumers to find common ground. We have a proposal that will instill mutual confidence. We propose that we adopt a Price Band Mechanism. Consuming countries must guarantee that oil prices will not fall below an agreed level and producing countries must guarantee that oil prices will not rise above a guaranteed level. In the band between these two levels, let prices be determined by market forces. This is the only way to shelter the world from volatility and unpredictability in oil prices.We firmly believe **that the current level of international oil prices is in the interest of neither the oil-producing countries nor the consuming countries. If the global economy slows down or slips into a recession due to high oil prices, that will eventually hurt all of us. Therefore**, in our enlightened self-interest, we must take concerted action to address the present situation. We welcome this energy dialogue and promise to remain engaged always. I appeal to you in the name of development; I appeal to you on behalf of all developing countries to seize the moment. **Let us put our heads together and find the way forward to normalize the oil markets and to move towards a future in which energy is available, accessible and affordable for all on a sustained basis".**

Aff – High Prices Bad – Economy

Extinction

Auslin 9 (Michael, Resident Scholar – American Enterprise Institute, and Desmond Lachman – Resident Fellow – American Enterprise Institute, "The Global Economy Unravels", Forbes, 3-6, http://www.aei.org/article/100187)

What do these trends mean in the short and medium term? The Great Depression showed how social and global chaos followed hard on economic collapse. The mere fact that parliaments across the globe, from America to Japan, are unable to make responsible, economically sound recovery plans suggests that they do not know what to do and are simply hoping for the least disruption. Equally worrisome is the adoption of more statist economic programs around the globe, and the concurrent decline of trust in free-market systems. The threat of instability is a pressing concern. China, until last year the world's fastest growing economy, just reported that 20 million migrant laborers lost their jobs. Even in the flush times of recent years, China faced upward of 70,000 labor uprisings a year. A sustained downturn poses grave and possibly immediate threats to Chinese internal stability. The regime in Beijing may be faced with a choice of repressing its own people or diverting their energies outward, leading to conflict with China's neighbors. Russia, an oil state completely dependent on energy sales, has had to put down riots in its Far East as well as in downtown Moscow. Vladimir Putin's rule has been predicated on squeezing civil liberties while providing economic largesse. If that devil's bargain falls apart, then wide-scale repression inside Russia, along with a continuing threatening posture toward Russia's neighbors, is likely. Even apparently stable societies face increasing risk and the threat of internal or possibly external conflict. As Japan's exports have plummeted by nearly 50%, one-third of the country's prefectures have passed emergency economic stabilization plans. Hundreds of thousands of temporary employees hired during the first part of this decade are being laid off. Spain's unemployment rate is expected to climb to nearly 20% by the end of 2010; Spanish unions are already protesting the lack of jobs, and the specter of violence, as occurred in the 1980s, is haunting the country. Meanwhile, in Greece, workers have already taken to the streets. Europe as a whole will face dangerously increasing tensions between native citizens and immigrants, largely from poorer Muslim nations, who have increased the labor pool in the past several decades. Spain has absorbed five million immigrants since 1999, while nearly 9% of Germany's residents have foreign citizenship, including almost 2 million Turks. The xenophobic labor strikes in the U.K. do not bode well for the rest of Europe. A prolonged global downturn, let alone a collapse, would dramatically raise tensions inside these countries. Couple that with possible protectionist legislation in the United States, unresolved ethnic and territorial disputes in all regions of the globe and a loss of confidence that world leaders actually know what they are doing. The result may be a series of small explosions that coalesce into a big bang.

Aff – High Prices Bad – China Econon

High prices will destroy Chinese economy.

Richard Weixing Hu, March 2008. Visiting Fellow at the Center for Northeast Asian Policy Studies. "Advancing Sino-U.S. Energy Cooperation Amid Oil Price Hikes," http://www.brookings.edu/opinions/2008/03_energy_hu.aspx.

The high price of oil is hurting the American economy and is also doing harm to the Chinese economy. Last year China's inflation rate, measured by the consumer price index (CPI), climbed to 4.8% after almost a decade of low financial risk. An "over-heated" economy, high investment, and a huge liquidity surge amid energy price spikes have dramatically raised the Chinese government's concerns about inflation. Entering 2008, the CPI continued to soar to an alarming 7.1% in January (partially due to the major snowstorms in southern China), and made it more difficult to implement measures to ensure a future "soft landing" for the economy. Although Chinese consumers do not have to pay for oil price hikes as much as the American consumers do, due to huge government subsidies, the price spikes have certainly increased the Chinese government's subsidy burden, drained its financial resources, and further worsened the price distortion in the Chinese economic system, a big potential danger that should not be underestimated. Looking down the road, if oil prices continue to climb and/or are manipulated by certain forces in the international market, further damage would certainly be done to the Chinese and American economies alike.

World War III

Plate, Professor at UCLA**, 3** (Tom Plate, "Neo-cons a bigger risk to Bush than China," The Straights Times, 6-28-2003)

But **imagine a China disintegrating- on its own, without neo-conservative or Central Intelligence Agency prompting, much less outright military invasion because the economy (against all predictions) suddenly collapses. That would knock Asia into chaos. A massive flood of refugees would head for Indonesia and other places** with poor border controls, which don't' want them and cant handle them; some in Japan might lick their lips at the prospect of World War II revisited and **look to annex a slice of China. That would send Singapore and Malaysia- once occupied by Japan- into nervous breakdowns. Meanwhile, India might make a grab for Tibet, and Pakistan for Kashmir. Then you can say hello to World War III,** Asia style. That's why wise policy encourages Chinese stability, security and economic growth – the very direction the White House now seems to prefer.

<u>Aff – High Prices Bad – Food Prices</u>

High oil prices are driving high food prices.

Dr. Uri **Gordon and** Lucy **Michaels**, 5/4/**2008**. Teaches at the Arava Institute for Environmental Studies and Doctoral Environmental Policy Research at Ben-Gurion University. “Food troubles are here to stay.” Haaretz, http://www.haaretz.com/hasen/spages/980076.html.

The government sends calming signals and says no dramatic shortages are expected. The Economist says do nothing, market forces will sort it all out. But as the global food-price crisis hit Israel this week, something told us we are not being told the whole story. Around the world food prices are soaring. Since January 2006, the price of rice has risen by 217 percent. Wheat, corn and soybean prices have more than doubled, and in several countries, milk and meat prices have also doubled. Food prices and falling wages have sparked riots in more than 30 countries from Bangladesh to Egypt to Haiti - where the prices of rice, beans, fruit and condensed milk have gone up 50 percent over a few months, while the price of fuel has tripled. The poor are being hit the hardest. The steep price rises make a huge difference in countries like Indonesia, where food purchases alone eat up over half of a family's disposable income (compared to 7.3 percent in the United States, and close to 20 percent in Israel). With Israel's high dependence on food imports, it is no surprise that prices are rising. The country imports over 90 percent of its cereals, 70-80 percent of its fish and beef, and half of its pulses, oilseeds and nuts. We may soon be relying far more on Israeli potatoes, fruit and vegetables, since the present crisis appears to be part of a worrying long-term trend. The striking fact is that from 1974 to 2005, real food prices dropped by 75 percent globally. So what can explain this sudden and aggressive upturn? Though it has been played down in official reactions, **<u>the obvious explanation is staring us in the face: the dramatic rise in oil prices</u>**. In January 1999, crude oil cost $8 a barrel. Today it costs $119. Oil is vital for every stage of industrialized agriculture: from synthetic-pesticide and fertilizer production, to fuel for farm machinery and international freight. All of these have seen steep price hikes, and not surprisingly, food prices have risen with them. The reality is that we are effectively "eating oil." The shift to industrial agriculture over the last 60 years has left our food systems dependent on a nonrenewable resource. Now we are paying the price.

Even small food price increases kill half the planet.

Lester **Brown**, President of Earth Policy Institute, MPA at Harvard, Former Advisor to the Secretary of Agriculture, **2005**. “Outgrowing The Earth,” http://www.earth-policy.org/Books/Out/.

“Many Americans see terrorism as the principal threat to security,” said Brown, “but for much of humanity, the effect of water shortages and rising temperatures on food security are far more important issues. <u>For the 3 billion people who live on 2 dollars a day or less and who spend up to 70 percent of their income on food, even a modest rise in food prices can quickly become life-threatening.</u> For them, it is the next meal that is the overriding concern.”

Aff – No Backstopping

Kingdom Recognizing Alt Energy – Won't Flood – They Support It

Oil and Gas News 11 ("Kingdom Turns to Alternative energy", Oil & Gas News. Manama: Mar 28, 2011, Proquest)

FOR oil colossus Saudi Arabia, a shift to renewable energy is as much about preserving its international influence and maximising its revenues as saving the planet. The world's leading oil exporter and custodian of more than 260 billion recoverable barrels - around a fifth of the world's stock - Saudi Arabia has long held sway over markets and governments with its ability to add or subtract crude at a turn of the spigots. It has repeatedly said the world will for decades to come need the fossil fuels that in the short term are by far the most profitable. Adding renewables to the mix, however, is both inevitable and pragmatic, analysts say, as soaring domestic energy use will burn huge amounts of fuel oil unless alternatives, such as solar power, can be used instead. "It's really a preservation decision using solar for domestic consumption and keeping your oil for more lucrative export markets," says Vahid Fotuhi, director, Middle East, of BP division BP Solar. Industry officials have predicted a tripling in Saudi power consumption to around 120 gigawatts by 2032 from around 40 gigawatts last year.That rate of expansion could consume all of the roughly 8 million barrels per day (mbpd) Saudi Arabia produces. "Right now, out of the 8 million barrels per day (mbpd) they produce, over 3 mbpd are consumed domestically, mainly for power generation. That figure is growing 8 percent per annum," says Fotuh

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No backstopping—no <u>global</u> capacity

Forbes 7/15/11 (Forbes magazine, "Spare Capacity Dwindles, Alaska Looks Better," http://blogs.forbes.com/greatspeculations/2011/07/15/spare-capacity-dwindles-alaska-looks-better/, AM)

Heck, <u>Barron's had a cover story a few days ago about oil reaching $150 by next spring. It</u> cited some of the same data we cited four months ago, about "spare capacity" — or lack thereof. "<u>Spare capacity," we pause to remind you, is the ability of oil producers to jump-start new oil production within 30 days and keep it up for at least 90 days.</u> According to Morgan Stanley, <u>"spare capacity" will be tapped out in two years… and that's based on figures before the war in Libya took that nation's 1.5 million barrels per day offline.</u> With existing fields declining, and Washington keeping new fields off-limits, <u>Big Oil is bailing on Alaska</u> — or at least some of its historically prolific regions. Chevron, for instance, decided recently to dump its holdings in the Cook Inlet area. "The decision comes as production from Cook Inlet oil and gas fields is declining," reports the Anchorage Daily News, "typically, a period when big energy companies lose interest in their investments and smaller operators jump in." For those smaller operators, there's a surprising amount of oil yet to be tapped. "Nearly all of the operating oil and gas fields in Cook Inlet derive from exploration done in the 1950s and 1960s," explains *Petroleum News*. Then the giant Prudhoe Bay field was discovered and everyone ran off to work there instead. "As a consequence," the trade publication goes on to say, "only limited exploration of Cook Inlet has taken place in more recent decades." That's not the only incentive for a small operator to work over a place like Cook Inlet. "Some 80% of state revenues depend on oil and gas extraction," says Chris. "It employs thousands of people. Those people in turn support shops, restaurants, and the whole wheel that is a community. "So the state government created some sweetheart deals for oil and gas companies to spend money here. Among these goodies is a 40% state refund on money spent for drilling and exploration costs — paid in cash to the operator. There are other laws in place that could refund as much as 20% of other costs and 25% of net losses incurred." "For a small operator looking to get a sweet return on a moderate-sized pot of money, Alaska is like the El Dorado of oil and gas." <u>The realities of shrinking spare capacity are becoming more evident by the day. The International Energy Agency warns that unless OPEC can raise production by 1.5 million barrels a day</u> — about the same as that lost Libyan production — <u>global demand oil demand will start to outrun available supply between now and year-end.</u> Thus, "If there is not enough supply to match the 89 million barrels of oil the global economy is expected to burn every day," says former CIBC World Markets chief economist Jeff Rubin, "world oil prices have only one direction to go." "**<u>With no obvious end in sight to the Libyan conflict</u>,"** Mr. Rubin continues, "**<u>and sectarian violence against oil fields and refineries suddenly on the rise in Iraq ahead of the scheduled U.S. troop withdrawal, the prospects are not promising for OPEC to increase supplies.</u>** "This is even more evident given <u>the region's largest producer, Saudi Arabia, has little more to offer other than unwanted sour, heavy oil to add to the global supply mix</u>." It's not that the Saudi sheiks aren't trying. <u>Production in the kingdom rose nearly 4% last month, to 9.7 million barrels per day. Thing is, only half of that increase hit the international market. The rest went to Saudi Arabia's own refineries</u> for "power generation and water desalination plants during the peak summer season," according to an IEA report out yesterday<u>. Two more factors spurring oil demand: power shortages in China and Japan. Because of drought in China, hydropower plants can't generate as much electricity</u>. <u>Diesel generators are making up the difference. Diesel is also making up the difference in Japan after the Fukushima disaster</u>. Two-thirds of the country's nuclear capacity is offline and won't be coming back online anytime soon. Thus, oil stands to be a profitable play for some time to come even if what passes for a "recovery" in the United States ends up stalling out. How to play it? "About one-fifth of the domestically produced oil in the U.S. comes from Alaska," observes Chris Mayer, who's been examining the investing possibilities. "But these assets have been in long decline. Production of crude oil is down more 70% from its high in the 1980s."

Aff – No Backstopping – Capacity

Spare Capacity is tight- can't flood market

Reuters 12

[Reuters News, 6/26/12, http://af.reuters.com/article/energyOilNews/idAFL2E8HQ65U20120626]

Spare world oil production capacity is tight even though output from OPEC and North America has grown over the past year, the U.S. government said on Tuesday. "Global spare capacity remains relatively tight by historical standards," the Energy Information Administration said in a report on global oil supply and prices required by the Iran sanctions law President Barack Obama signed in December. The report, which obtained by Reuters ahead of publication, said spare oil capacity is estimated at less than 3 percent of total world consumption. (Reporting By Roberta Rampton, Timothy Gardner)

Supply disruptions kill spare supply- no flooding

Chazan 12

[Guy Chazan, Financial Times, 3/14/12, http://www.ft.com/cms/s/0/14b2afec-6db0-11e1-b9c7-00144feab49a.html#axzz1z1Z5piSN]

As a result of the supply disruptions, the IEA, which advises the industrialised countries on energy policy, downgraded its full-year forecast for non-Opec production growth to 730,000 b/d from 900,000 b/d. As recently as last December, it was predicting non-Opec supply growth of 1 million b/d. The agency stressed it expected non-Opec production to recover as 2012 progresses. The disruptions to supply in places like South Sudan, Yemen, Syria and the UK North Sea come at a time when Opec has ramped up production, with Saudi Arabia pumping at a three-decade peak and Libyan output quickly recovering to prewar levels. The IEA said Opec production stood at 31.42m b/d in February, the highest level since mid-2008. That has led to a decline in Opec's spare capacity – the cushion of supply its big producers, **especially Saudi Arabia**, keep in reserve. The IEA said Opec spare capacity is now below 3m b/d for the first time since 2008 – a year when oil prices spiked to their all-time high of $147 a barrel. The combination of low Opec spare capacity, constrained non-Opec supply and tightening western oil inventories – which are below their five-year average for a seventh consecutive month – means **oil markets are in for a "bumpy ride in the months ahead**," the IEA said. "There is a buffer in the system, but **it's not as big as we'd like given the geopolitical uncertainties** in the market," said David Fyfe, head of the IEA's oil markets division

Aff – No Backstopping – Perception

No Backstopping- lack of confidence

Sodhi, 2008

(Gauray, Economist at the Centre for Independent Studies, The Myth of OPEC, June 24, http://www.cis.org.au/executive_highlights/EH2008/eh63608.html)

The massive reserves of Saudi Arabia have also historically been a tool to encourage quota compliance. The Saudis, with their massive oil reserves and high levels of spare production capacity, have in the past threatened to flood the market with oil to engineer a collapse in price. With the world's cheapest production costs and lots of spare capacity, it was a threat the Saudis could theoretically carry out. Not anymore. Saudi Arabia no longer has the buffer of excess production, and there is a lack of confidence in the sustainability of its largest fields. The long standing threat to flood the market with cheap oil has now become a bluff, and the other members of OPEC know it. OPEC goes to great trouble to pretend that it can influence prices. It holds regular meetings where it ordains a new production target with much ceremony.

No risk of backstopping- production will never be limited

Sodhi, 2008

(Gauray, Economist at the Centre for Independent Studies, The Myth of OPEC, June 24, http://www.cis.org.au/executive_highlights/EH2008/eh63608.html)

But honestly, you would have to be a mug to believe that OPEC countries are purposefully limiting production. When oil prices rise, so does the opportunity cost of sticking to the allocated quota. So while its possible to maintain a cartel when prices are low, you can bet your life that each member is pumping out as much crude as it possibly can at $140 a barrel. There are two reasons for this. Member countries of course have a financial incentive to pump more at higher prices: Saudi Arabia alone earns more than a billion dollars a day in oil revenue. For most OPEC countries, oil is their main source of revenue and if there is one thing governments like, its revenue. But there is a more important reason. OPECs members aren't stable democratic countries in which petroleum is just another industry. They are mostly authoritarian states that use oil as a means of sustaining political power. Oil money is a way of buying support from key parts of society and financing a security apparatus to deal with enemies. Oil creates the revenues that enable many OPEC regimes to continue to stay in power. By allowing countries to both buy authority and enforce it, oil strengthens regimes that would otherwise be very wobbly. Nothing would be more destabilizing for the Saudi monarchy or the Iranian theocracy than a fall in oil revenues. Would Hugo Chavez survive in Venezuela without using cheap oil to buy off allies? Governments in Libya, Nigeria and Angola would similarly all be in perilous political positions without the benefit of oil money. Far from being an economic boogey man, the truth about OPEC is that it is a largely powerless organisation that sustains its own existence with a myth, a myth that governments in the West are complicit in spreading. Like a peacock that impresses with a great show of colour and noise, OPEC is really just a big bird that can't fly.

Aff – No Backstopping – Economics

No Backstopping- Downward trends in demand cause OPEC to maintain Capacity targets

Pitt 2008

(Anthea, Online Editor, April 20, http://www.upstreamonline.com/live/article152762.ece)

Top oil exporter Saudi Arabia has no plans to expand capacity further as long-term oil demand forecasts fall and alternative fuel supplies rise, Saudi Oil Minister Ali al-Naimi has said. Saudi Arabia, the holder of the world's largest oil reserves sees no need to go beyond its 2009 capacity target of 12.5 million barrels per day "at least up to 2020", Al-Naimi told oil industry newsletter Petroleum Argus, Reuters reported. Long-term future energy demand forecasts have fallen sharply, he said in the interview given to the weekly on 11 April, casting doubt on the need for more Saudi oil. Demand forecasts have fallen as low as 106 million bpd in 2030, down from previous estimates as high as 130 million bpd. The world currently consumes around 86 million bpd. "The projection of demand is on the decrease," Naimi said. "The projection of alternative fuels is on the rise. Therefore, it behoves us to pause, instead of expending unnecessary funds on expanding capacity that will probably not be needed," he said. "We will watch what happens in the coming years. It is a pragmatic position." Saudi Arabia has spent tens of billions of dollars on projects to meet growing world demand and maintain spare production capacity of 1.5 million to 2 million bpd to deal with any unexpected outages in global supply. The kingdom has previously said it could take output capacity of 15 million bpd. The kingdom is the only oil producer with substantial spare capacity that can be brought online quickly. "We are idling at around 9 million bpd and we will reach capacity of 12.5 million bpd by 2009," Naimi said. "That is substantial spare capacity. As far as I know, all the latest projections, at least up to 2020, do not require anything higher than that." A Saudi oil official said earlier this month that output stood at around 9 million bpd. Current capacity is around 11.3 million bpd. Naimi said the oil market did not need more oil and crude inventories were "fairly high". "Today there is no reason to jump up and down and say 'we will supply more crude' - because that request from consuming countries is probably politically driven rather than a fundamental requirement," he said. UK Prime Minister Gordon Brown this week said he wanted to see collective action to persuade Opec to boost output and bring down prices. US President George W. Bush has also repeatedly urged Opec to supply more oil. But boosting Saudi oil output would destabilise the market, Naimi said. "We would be flooding the market," he said. "The market cannot handle it, there is no demand." The price of oil was divorced from oil market fundamentals, Naimi said. Oil has become a hedge for investors, like gold, against the falling value of currencies, he added. "That is the reason for the pressure on the price of oil," he said. US crude hit a record of $117 a barrel on Friday. Rising costs for materials, construction and oil service contracting has pushed up the cost of adding new oil output capacity in Saudi Arabia to between $5000 and $8000 per barrel, Naimi said. Capacity additions at the Shaybah oilfield, where state oil company Saudi Aramco is adding 250,000 bpd to current capacity, cost around $5000 per barrel he said. At the giant Ghawar field, additional capacity costs were around $2000 per barrel. The highest depletion rates at Saudi oilfields were around 2% to 3% per year, Naimi said. Reservoir management and drilling prevented higher decline, he added. Decline rates at existing wells were around 6% to 8% per year. The only capacity addition that Saudi Arabia has detailed beyond 2009 is the 900,000 bpd Manifa field, which is to replace decline at other fields, Naimi said. "Manifa is really a 'maintain potential' facility," Naimi said. "It does not add to our spare capacity."

<u>Aff – No Shocks</u>

No market shocks

Henriques and Sadorsky '8 (Irene, and Peter, Schulich School of Business in Canada, "Oil prices and the stock prices of alternative energy companies," http://isites.harvard.edu/fs/docs/icb.topic741392.files/EnergyStockPrices.pdf, Energy Economics 30 (2008) 998–1010, AM)

Simulation <u>results show the stock prices of alternative energy companies to be impacted by shocks to technology stock prices but shocks to oil prices have little significant impact on the stock prices of alternative energy companies.</u> These results add to a small but growing literature showing that **<u>oil price movements are not as important as once thought because investors may view alternative energy companies as similar to other high technology companies.</u>** These results should be of use to investors, managers and policy makers.

<u>**Aff – A2: Russia Economy**</u>

Russian economy's resilient

Garrels 8 [Anne, writer for NPR, "Russian Economy Strong Despite Commodity Fallout," 9/20, http://www.npr.org/templates/story/story.php?storyId=94647099]

<u>**For the past six years, Russia's economy has boomed**</u> in large part because of soaring prices for oil and metals. Russia is strong in these areas — too strong, though, for a balanced economy. Russian shares have bled almost 50 percent of their value since May, but <u>**many analysts say Russia still remains a resilient economy**</u>. And <u>**after the Georgia invasion and weeks of harsh, anti-western rhetoric, both**</u> Russian President Dmitri <u>**Medvedev and**</u> Prime Minister Vladimir <u>**Putin have tried to reassure foreign investors**</u>. When those commodities prices dropped, Russia's stock market was hit hard. "The question is if they fall significantly further," says James Fenkner with Red Star Assets in Moscow. Fenkner is one of the more cautious voices in Moscow, and other analysts like Roland Nash of Renaissance Capital look at other indicators, like direct foreign investment. "The level of foreign investment is twice the per capita of Brazil, four times that of China, and six times that of India this year," Nash says. "<u>**The market arguments for Russia are still very good and there is still a lot of money coming in**</u>." Too Dependent On Commodities. <u>**The Russia government recognizes it is too dependent on commodities, and**</u> while their prices were high, it <u>**amassed huge reserves as a cushion. The country now has a balanced budget and**</u> financial <u>**analysts predict its economy will continue to grow**</u> at about six percent. Vladmir Tikhomirov, senior economist at Uralsib Financial Corporation, says <u>**this is enough to avoid a crisis**</u>, but it is not what the Kremlin hoped for.

Oil prices are not key to the Russian economy

Kelly 11 — writer for Reuters (Lidia, May 19, 2011, "Russia's economy struggles for sustainable growth" http://in.reuters.com/article/2011/05/18/idINIndia-57105920110518)

<u>Russia's economy is struggling to attain sustainable growth despite the surge in prices for its oil exports, data showed on Wednesday</u>, pointing to another tough decision on official interest rates later this month. <u>Industry output grew at its slowest rate in 18 months in April, while producer prices rose more than forecast and weekly consumer inflation, stuck at 0.1 percent</u>, underlines the conflicting pressures on the central bank. <u>Pledging to keep full-year inflation below 7.5 percent</u> ahead of presidential elections in March 2012, <u>the central bank is expected to continue tightening monetary policy</u> -- <u>but a sluggish economy will complicate its decision-making on how to control prices and manage rouble appreciation driven by high oil prices</u>. Investors have been scrutinising data for clues on the central bank's move after the regulator unexpectedly raised all key rates last month, including the benchmark refinancing rate. <u>The latest data, including</u> Monday's <u>figures showing gross domestic product growing a weaker than expected 4.1 percent year-on-year despite surging oil prices</u>, <u>suggests that</u>

emerging Europe's largest economy is struggling. "**We would have expected that given the high oil prices something of this would transfer to the real economy**, but the big story is inflation, which is eating into the real income of consumers," said David Oxley, an emerging markets economist at Capital Economics in London.

Aff – A2: Russia Economy – Not K2 Econon

Econ high now despite low prices

Adomanis 12

[Mark Adomanis, Forbes Contributor, 7/18/12, http://www.forbes.com/sites/markadomanis/2012/07/18/russias-economy-in-2012-a-strong-start-and-an-uncertain-future/]

The IMF recently cut its forecast for Russia's 2013 GDP growth from 4 percent to 3.9 percent, and repeated its forecast that 2012 economic growth would come in right at 4 percent. The Russian Ministry of Economic Development is slightly less optimistic, predicting that 2012 GDP growth will be in the 3.4-3.7% range (though it reserves the right to revise this upward if necessary). Well the results of the first half of 2012 are now available from Rosstat and, at first glance, they would appear to be ground for significant optimism: GDP grew at a 4.9% rate, fixed capital formation grew at 4.7%, and retail turnover galloped ahead at a rapid 6.9% annual rate. Also on the positive side of the ledger was a 3% growth in disposable incomes and a strikingly large 10% decline in unemployment to a post-Soviet low. Russia has now officially surpassed its pre-crisis GDP peak and is doing so with oil prices that are roughly $30 a barrel less than they were in 2008, when the world energy market was at the height of its decade-long run up in prices, and with notably lower levels of both unemployment and inflation. So while the Russian economy isn't exactly a world-conquering colossus, it's arguably in better shape than its ever been: prices are more stable, more workers are active, and investment and consumption are increasing.

Manufacturing and construction key – oil prices don't translate into increased growth

Kelly 11 — writer for Reuters (Lidia, May 19, 2011, "Russia's economy struggles for sustainable growth" http://in.reuters.com/article/2011/05/18/idINIndia-57105920110518)

Crude has held above $100 per barrel for a third month in a row -- more than $30 above what had been initially assumed in the 2011 budget -- ensuring fresh cash inflows into the economy and propping up Russia's trade and current account surplus. **The Economy Ministry said** late last month that **it was relying on industry to put the economy onto a sustainable path to 4.2 percent gross domestic product growth this year**. "**Manufacturing sectors of the industry will be the drivers of economic growth in 2011, with growth dynamics of 7.5 percent**," the ministry said in a document describing economic scenarios. **But while manufacturing grew 5.3 percent year-on-year in April, it was down 3.6 percent on the month**, Wednesday's data from the Federal Statistics Service showed. **Extraction of raw materials, including oil** and gas, **was also down** on the month, **after a period when rising crude prices encouraged production**. "Industry in Russia strongly reacts to changes in external demand, but **high oil prices are not enough any more and from the point of view of internal growth, expectations about growth in the second quarter come, first of all, from construction**," said Natalya Orlova, an economist at Alfa-Bank. **Construction was one of main drivers of Russia's stellar performance in the second half of the last decade, before the 2008 crisis** brought a halt to virtually all projects. Oxley at Capital Economics said **the upshot is that growth will likely pick up in the second half, with** pre-election **spending taking hold and the spike in inflation fading to take some of the pressure off the central bank**.

Aff – A2: Russian Econ – Unsustainable

Russian oil industry terminally unsustainable—diminishing returns

Mikhailov 12

International business journalism community laureate recipient (Alexei "Russian economy on feet of clay"Gazeta 27.03.12 http://en.gazeta.ru/opinions/2012/03/27/a_4107689.shtml)

At the core industry of Russian economy –in oil and gas – something is rotten. A crisis looms that could harm Russian economy even if oil prices do not fall. The role of Oil and Gas in the Russian economy. The revenues from the oil and gas industry are approximately half of Russia's budget. Oil and gas exports last year were 69% of all Russian exports. Imagine a nightmare scenario for a second: all of these revenues are gone. The budget deficit would total 10% of GNP. We would have to cut budget expenses in half or inflation would grow to 30% - 50% a year. The current trade balance surplus of almost $200 bln would turn into a trade balance deficit of $150 bln. The Ruble exchange value would fall two- or threefold. It would be a catastrophe for Russia. All our relative prosperity is based on oil and gas. But it wasn't always like this. Until 1980's, oil and gas exports didn't play a major part in the Soviet economy. Only after the oil price rise in the mid 70's did the USSR start to explore Western Siberia and build pipelines to the West. To preset day, the Russian economy lives off a Soviet investment project, accomplished almost half a century ago. All good things end one day. The oil from old wells becomes ever more expensive to extract, and the reservoirs are dwindling. The companies are not exploring new oilfields. Tax reform of the beginning of the 00's and the oil extraction stagnation The tax for resource extraction, introduced in 2002, came right on time – prices were rising and preparing to jump. The budget has skimmed the cream from world oil price growth, and the oilmen could only lick their lips, The ideology of a resource tax and the new export tariff was that the size of the tax depended on world oil price growth and the volume of extraction and export. it did not depend on the operation profits for oil companies. The budget received revenues that it didn't know what to do with. The government decided to just burn it in budget funds. While burning off the super-profits, the state resumed some harsh social reforms (like the monetization of benefits), and state tariffs for communal services and transport continued to go up. The Russian populace received only mere drops from the "oil downpour". And the state learned to regulate the oilmen. However high were the oil prices, the industry received only 8% - 11% profitability, no more. Moreover, the "investment allowance" on profit tax was cancelled, a rather harsh procedure on exploration expenses accounting was instituted (amortization and semi-amortization, not included in the prime cost). Let's try to remember the difference between the extraction industry and the processing industry. In resources extraction the ivestments in many cases substitute the operating costs to support the extraction, this is not an investment per se. Despite that, it was taxed to full extent. What do you expect from oil extraction industry after such a reform? Yes, you are right. The extraction fell in the beginning of 90-ies, after USSR collapse from 516 mln tons in 1990 to 307 mln tons in 1995. Then it grew from 324 mln tons in 2000 to 459 mln tons in 2004 – oil price was growing. And then, since 2005 and after the tax reform, it started to grow very slowly. During the feast for the oil tycoons, Russia had increased the extraction only a little, giving all the cream to their competitors. In 2008, when oil prices peaked, extraction even fell a bit. During the last 7 years, oil extraction has increased only 11%. Simply put, this is industry stagnation. It's evident this taxation system was built to maximize budget revenues and to "sanitize" the global price dynamics for the Russian oil industry. Oil and gas – a very different approach When the tax reform was instituted in the beginning of the 00's, oil was privately owned (Rosneft had not yet devoured Yukos and was a very average company in the industry), and gas belonged to the state. Gazprom was always considered by the government a spare 'wallet' for any tasks that are shy of more or less transparent budgets. We are not talking about whether Gazprom was a corruption watering hole for state officials. But it always has been the wallet for the stately desires if top officials, since Yeltsin. If they need to build a church, or sponsor a football team, or even launch the winter Olympics in a subtropical zone or a huge project putting metal into earth (pipeline building) – Gazprom always helped the government. Since the beginning of the tax reforms, the state has built a difference in taxation between oil and gas industries. Oilmen were squeezed clean and gasmen received a huge money resource. Profitability in the oil industry is holding at 10% (state companies have a little more because of some budget preferences). And Gazprom profitability has been holding at 30% for a long time. Feel the difference. If Gazprom was taxed like oil companies are, the federal budget would have received an additional 500 bln rubles in 2010 and 750 bln rubles in 2011. That equals to one more top-5 Russian oil company with all taxes forgiven. At the same time, Gazprom hits the taxpayers twice: by not paying taxes and increasing their tariffs. Every year, the company, with state permission, increases tariffs 15% (like this year) or more (as in previous years). This is much more than official inflation, usually twice as much. They are taking this money out of our pockets, gas is half of our electric energy, all electricity tariffs, communal services, transportation. They increase their grab from gas tariffs automatically, all to provide for Gazprom superprofits. In 2012, a twofold increase is planned to the resource tax for Gazprom. It will decrease its profitability only a little. But here we have a new promise from the prime minister and the president-elect Vladimir Putin (March 23) "If you feel some pressure in your company or industry in general, let's return to this conversation, discuss where and when can we support you, but we won't increase the tariff (higher than the planned 15% - A.M.)" The state needs to increase budget revenues a bit but it doesn't equate the task to oil and gas taxation. Why should it? It's so convenient to have a 'spare' trillion rubles of Gazprom profits, that can be used to finance state investment projects. And these projects are definitely not new fields. It's unnecessary for company 'political projects' – super-expensive new pipelines Gazprom doesn't especially need, Olympics, etc. The oilmen don't have money for development, Gazprom has lots of money that is not used for industry advancement. The outlook All the oil companies are talking about the extraction growth rate, putting it at 1.5 – 2 times in the next several years (usually 10 years or more – that way either the donkey dies, or the Emir). And all of them prefer not to point out that each ton of oil costs more for the company, both operating costs and investments. Russian oil companies have to sharply increase investments just to keep their current level of extraction. LUKoil in 2011 suffered a 5% extraction loss while increasing investments 25%. And it's a small jump when compared to other oil companies. TNK-BP, Gazpromneft and others also showed a sharp rise in investments. Rosneft increased extraction by approximately 2% and increased investments almost 50%. While talking about future oil extraction growth, the oilmen show basically negative results: tiny extraction growth with ever rising operating costs, investments and debts. With new evidence of dwindling resources and stagnation in new oil field exploration. For now, this negative information is drowned in reports of growing oil prices. But it's necessary to understand that the comfort zone in oil prices for Russian oilmen is shrinking on both sides. -- The prime cost for Arabian oilmen is two – three times lower than in Russia. For them, $40 for the barrel of oil is still superprofitable. For our oilmen, $60 is zero margin (and zero oil revenues for the state budget). The expenses grow and press profitability of the Russian oil industry from below. -- When the price is high, alternative energy projects become effective: shale gas and renewable energy sources such as wind, sun, geothermal energy, etc. Even with current oil and gas prices, they are

pressing the prices from above. The most profitable industries in the Russian economy are getting sick, they are unable to increase their extraction. If the prices grow, they will start to lose to alternative energy sources and lose their share on the market.

<u>Aff – A2: Russian Econ – Dutch Disease Turn</u>

Low prices have no impact- leads to diversification which prevents collapse

Kommersant 06

[Russia's Daily Online New Source, "Low Oil Prices May Push Up Russia's Economy," 7/16/2006, http://www.kommersant.com/p705040/r_500/Low_Oil_Prices_May_Push_Up_Russia's_Economy/]

The OPEC Reference Basket has fallen below $60 per barrel, for the first time over the last five months, closing at $59.08 at the New York exchange yesterday. However, futures for Light Sweet grew. Analysts explain it, saying that stags decided to buy more contracts at attractive low prices. **<u>Experts note that a new drop is the start of a long-term trend of a decline in oil prices. Russian authorities have already given their predictions of how Russia's economy will be affected by lower oil prices</u>**. The Central Bank's head Sergey Ignatyev said that **<u>Russia would not suffer even if oil falls below $25-30 per barrel</u>**. Independent experts are of a different opinion, though. With a Urals barrel at $80 a Russian oil company has after-tax net profit of $36.3 billion annually. If Urals decline to $30, the net profit will plummet to $7.8 billion. Yet, **<u>a fall in natural resources prices may give a positive impulse to the Russian economy. "Certainly, if the natural resources industry slows down, other sectors may speed up as the Central Bank will no longer have to strengthen the ruble to trend down inflation</u>**," Evgeny Nadoshin at the Trast bank said. "**<u>This is what Russian business has long been asking for." A sharp drop in oil prices may force the Russian government to reinvigorate reforms and diversify economy, which will boost Russia's economy. Even if authorities prefer a passive stance and keep on increasing budget expenses ahead of presidential election, Russia's gold reserves and stabilization fund will help the economy to slow down as smoothly as possible</u>**.

Aff – A2: Russian Econ – Dutch Disease Turn

Dutch diseases causes economic collapse and Russian aggression

Shlapentokh 06

[Vladimir Shlapentokh, professor of sociology at Michigan State University, Oil & Gas Journal, "HEADLINE: Intoxicated by high oil prices: Political Dutch disease afflicting the Kremlin," November 6, 2006, lexis]

As suggested by many economists, **Dutch disease**--a country's excessive dependence on the export of raw materials--**can have serious economic** consequences as a country becomes increasingly dependent on that raw materials sector**.** Other branches of the economy**, such as manufacturing,** often decline because of the concentration of such resources **as oil or gold, as happened in 16th century Spain.** A sudden fall in the price of the raw materials could bring an economic collapse. **Seemingly, the Russian leaders**, like their colleagues in Venezuela and Iran, **see the world through the prism of oil revenues. It goes without saying that one of the first victims of the political Dutch disease is democracy**. However, **an even more dangerous consequence of the political Dutch disease is the leader's loss of a sober assessment of reality. Under the impact of their technological achievements, both Stalin and Khrushchev, with their skewed visions of reality, moved the country closer to a major war**. Putin's euphoria over oil prices may not be as great as his predecessors' enthusiasm, but his aggressiveness in foreign policy in general, and toward the US and Russia's neighbors in particular, has clearly increased since 2005. The shift occurred in late 2005 when Moscow brandished its gas weapon against Ukraine and indirectly against Europe. Russia's foreign policy has hardened (despite some cooperative gestures toward the West) and influenced several international conflicts, including issues surrounding North Korea, Iran, and the Middle East. The conspicuous demonstrations in July of friendship with Venezuela's Chavez, another political leader inebriated by oil revenues, and the readiness to sell him weapons despite American protests were clear signals of unfriendliness toward the US. Russian media treated Moscow's attitudes toward Chavez as an obvious demonstration of disregard toward American concerns. Dmitry Medvedev's proposal to make the ruble fully convertible in an attempt to renew the currency's international status was another result of the country's oil fever. Medvedev talked contemptuously about "the financial irresponsibility of the United States," citing the country's growing national deficit. He also denounced the International Monetary Fund's attempt to promote market reforms, forgetting that only a few years ago Russia had scrounged for credits from this bank. **Oil fever has not infected all Russians**. The level of enthusiasm among the general public and particularly among experts does not match the levels observed after Sputnik and cosmonaut Gagarin were launched into space, to say nothing of the excitement after the 1945 war victory. Among the most persistent critics of the oil frenzy is Egor **Gaidar who suggested that the leadership's oil delirium and its disregard for the instability of oil prices were dangerous to the country**. **Several independent politicians and journalists have seconded Gaidar's critique** of the Kremlin's "hydrocarbon doctrine," **demonstrating concern for the "time bomb in our political system**." Concerned about the Kremlin's "muddled vision of the world," some independent minds in Russia, such as Dmitry Muratov, the editor of Novaya Gazeta, insisted: "**The intellect of the government changes inversely with the price of oil**." n6 Leonid Radzikhovsky, a famous liberal journalist, wrote about the inverse correlation between the level of democracy and the price of oil. What is more, even Vladislav Surkov, until now the Kremlin's leading ideologue challenging Medvedev, in a struggle for influence over Putin, suggested that, with gas as its only basis, t**he Russian economy would inevitably reveal its fake prosperity in the "post-hydrocarbon era**." Russia is not the only country in the world that is obsessed with oil. Every country, in one way or another, is preoccupied with oil. While the US, Europe, China, and India are concerned about fuel supply and the adverse influence of high oil prices on the economy and standard of living, several countries, including Russia, have turned their oil resources into weapons for achieving their domestic and foreign goals. **As the experiences of Stalin and Khrushchev showed, Russian leaders sometimes overstretch the potential of their advantages and lose a sober perspective of reality**. **Mesmerized by his clout, Putin may accept "the invitation" of the Russians to stay in power** after 2008. Today, 51% of the Russians would vote for him if he decided to try for a third term, which he promised not to do. In the foreign arena, Putin has already shown less willingness to cooperate with the West and the US in particular. His foreign policy may harden even more. However, it is unlikely that Moscow will demonstrate direct hostility toward the West in the near future. The post-Soviet space is another story, however. **The idea that oil will allow Russia to take control over Ukraine, Georgia, and Belorussia is deeply engrained in the minds of Kremlin politicians. We can expect an exacerbation of the political developments in the post-Soviet space, which will undoubtedly complicate relations with the West**. Aside from the damage to Russia's international relations, the oil delirium is more problematic to the country's long-term national interests. **The over-confidence in oil revenues may lead to a decline in the spirit of entrepreneurship, to a refusal to modernize industry, or even to an acceptance of deindustrialization**. **The obsession with high oil prices explains why the Kremlin sees few obstacles to the**

<u>country's continued move toward an authoritative regime</u>. It also explains the Kremlin's conspicuous disregard for the growing problem of corruption in society. With the vision of the Russian leadership blurred, it may become increasingly insensitive to various destructive tendencies in the country. The impact of the price of oil on political decision-making in Russia is crucially important to the world and should be closely monitored.

Aff – A2: Russian Econ – Dutch Disease Turn

Aggression causes Nuclear war

Blank 09

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Proliferators or nuclear states like China and Russia can then deter regional or intercontinental attacks either by denial or by threat of retaliation.168 Given a multipolar world structure with little ideological rivalry among major powers, it is unlikely that they will go to war with each other. Rather, **like Russia, they will strive for exclusive hegemony in their own "sphere of influence" and use nuclear instruments towards that end**. However, **wars may well break out between major powers and weaker "peripheral" states or between peripheral and semiperipheral states given their lack of domestic legitimacy, the absence of the means of crisis prevention, the visible absence of crisis management mechanisms, and their strategic calculation that asymmetric wars might give them the victory or respite they need**.169 Simultaneously, **The states of periphery and semiperiphery have far more opportunities for political maneuvering. Since war remains a political option, these states may find it convenient to exercise their military power as a means for achieving political objectives. Thus international crises may increase in number. This has two important implications for the use of WMD. First, they may be used deliberately to offer a decisive victory (or in Russia's case, to achieve "intra-war escalation control"**—author170) **to the striker, or for defensive purposes when imbalances** 67 **in military capabilities are significant; and second, crises increase the possibilities of inadvertent or accidental wars involving WMD**.171 Obviously **nuclear proliferators or states that are expanding their nuclear arsenals like Russia can exercise a great influence upon world politics if they chose to defy the prevailing consensus and use their weapons not as defensive weapons, as has been commonly thought, but as offensive weapons to threaten other states and deter nuclear powers**. Their decision to go either for cooperative security and strengthened international military-political norms of action, or for individual national "egotism" will critically affect world politics. For, as Roberts observes, But if they drift away from those efforts [to bring about more cooperative security], the consequences could be profound. At the very least, **the effective functioning of inherited mechanisms of world order, such as the special responsibility of the "great powers" in the management of the interstate system, especially problems of armed aggression, under the aegis of collective security, could be significantly impaired. Armed with the ability to defeat an intervention, or impose substantial costs in blood or money on an intervening force or the populaces of the nations marshaling that force, the newly empowered tier could bring an end to collective security operations, undermine the credibility of alliance commitments by the great powers, [undermine guarantees of extended deterrence by them to threatened nations and states] extend alliances of their own, and perhaps make wars of aggression on their neighbors or their own people**.172